CITY OF DUBLIN, OHIO

DEBT POLICY

I. Purpose

The purpose of this debt policy is to provide guidelines to City Council and the Administration regarding the use of debt to finance capital projects. The City's legacy of financial stability is built upon a conservative approach to spending as well as a long-term commitment to full and timely repayment of debt.

For a debt management policy to be an effective tool, the provisions of the policy must be compatible with the City's goals pertaining to the Five-Year Capital Improvement Program (CIP). Multi-year forecasts of debt service requirements will be included in the City's annual update of the Five-Year CIP.

II. Authorized methods of sale

There are two basic types of debt sales: Competitive Sale and Negotiated Sale. In a competitive sale, the City (along with its financial advisors and bond counsel) structures a bond or note sale internally and offers the securities for sale through a competitive bidding process. In a negotiated sale, the City selects an underwriter or team of underwriters to represent it in the market. The underwriting team selected sets the rates on the bonds in consultation with the City and its advisors.

The City will maintain a bias toward the competitive sale format under the following conditions:

- On general obligation sales: The City is a highly rated entity and has a high level of market acceptance for its general obligation bonds and notes. These attributes are conducive to accessing the market via competitive bid.

- Stable market conditions: During periods of low volatility, market timing is less critical than when conditions are rapidly changing. The advantages of a negotiated sale are reduced during periods of stable market conditions.

- Traditional structure: Debt structured with level annual debt service payments or level annual principal payments are easily accommodated through a competitive sale.

The City will maintain a bias toward the negotiated sale format under the following conditions:

- On revenue bond issues or project backed financing: The City will consider issues supported only by a specific revenue stream or the revenues of a particular project from time to time. Market acceptance may be lower on these types of financings and investor education will be beneficial on such sales. This is more easily achieved through a negotiated sale.

- Volatile market conditions: The City may want to access the market quickly when market conditions are volatile in order to take advantage of brief "windows of opportunity". Negotiated sales are advantageous when these conditions exist.

- Refinancing: When considering a refinancing opportunity, the City will generally establish a "target" level of savings. The City will want to know that its target can be met prior to offering the bonds for sale. A negotiated sale provides a higher degree of certainty with regard to timing and pricing of the bonds.

- "Non-traditional" structures: Whenever the debt must be structured in a tailored manner, the desired structure is best achieved through a negotiated sale. When zero coupons or variable rate securities are anticipated, the negotiated format is preferred.

III. Credit objectives

The City seeks to maintain the highest possible credit rating for all categories of its debt without compromising the delivery of its basic services. The Administration and City Council will attempt to take prudent steps to maintain the highest ratings possible, but recognizes that external factors impact the rating decision making process. The City will maintain an ongoing dialogue with rating analysts in an effort to ensure that the analysts fully understand its capital program, operations, and decision making processes. The City's debt policy will be communicated to the rating agencies, and deviations from the stated policy will be fully disclosed.

- Use of credit enhancements: The City will use bond insurance and/or letters of credit when it is economically or administratively advantageous to do so, or when required for the marketing of the bonds.

IV. Refunding debt

There are two types of refundings, as defined by Federal Tax Laws; a current refunding in which a refunding takes place within 90 days of the optional call date; and an advance refunding in which refunding bonds are sold more than 90 days prior to the first call date. Federal regulations permit issuers to advance refund an issue of bonds only once during the life of the issue. The City intends to be prudent in using this one opportunity. Regulations do not restrict the number of times that debt can be refinanced on a current basis, and the City will consider reducing its minimum savings threshold for current refunding issues. The City will consider refunding its debt obligations when it can be clearly demonstrated that such refunding will result in present value savings of 3-5% of the debt being refinanced. However, in certain circumstances, lower savings thresholds may be justified.

V. Investment of bond proceeds

The City will invest bond proceeds in investments that are consistent with the adopted Investment Policy. Any fees charged in relation to the investment of bond proceeds will be paid from interest earnings on the bond proceeds.

VI. Compliance with federal regulations, including arbitrage requirements

The City will comply with Internal Revenue Code Section 148, Arbitrage Rebate regulations by monitoring bond proceed expenditures against deposits and investment earnings on each of their respective bond funds. The City will make the necessary rebate filings and, if necessary, rebate payments to the Internal Revenue Service and will continue to take all actions required and recommended by bond counsel and or the municipal advisor to assure that any bonds issued as tax-exempt securities shall remain as such throughout the life of the issue.

The City will follow a policy of full disclosure on every financial report and bond prospectus and will adhere to SEC Rule 10b-5 which establishes a two-pronged standard for disclosure: what the disclosure statement says must be accurate and it must not suffer from any "material omission." This includes, but is not limited to, providing accurate financial information, especially audited financial statements, and disclosing information about pending or threatened litigation that would be considered material to the bond issue or the City. SEC Rule 10b-5 provides that it is unlawful for any person, directly or indirectly, in connection with the purchase or sale of any security "to make any untrue statement of a material fact or to omit to state a material fact necessary in order to make the statements made, in the light of the circumstances under which they were made, not misleading."

VII. Compliance with Annual Continuing Disclosure Requirements.

As part of the bond issuance process, the City is required to provide or cause to be provided to the Municipal Securities Rulemaking Board such annual financial information and operating data, audited financial statements and notices of the occurrences of certain events in such manner as may be required to fully disclose certain information that may be beneficial to current and potential bond holders in making investment decisions. The requirements are fully detailed in the Continuing Disclosure Agreement that is undertaken with each bond issue. The City will endeavor to keep the terms and requirements of each Continuing Disclosure Agreement consistent with respect to each category of debt being offered. The City will cause all such disclosure to occur in a timely and thorough manner consistent with the terms of each agreement.

- SEC Rule 15c2-12 requires that entities disclose any of the following events, if material, that relate to the bonds in question:
  - Principal and interest payment delinquencies;
  - Non-payment related defaults;
  - Unscheduled draws on debt service reserves reflecting financial difficulties;
  - Unscheduled draws on credit enhancements reflecting financial difficulties;
  - Substitution of credit or liquidity providers, or their failure to perform;
  - Adverse tax opinions or events affecting the tax-exempt status of the security;
  - Modifications to rights of security holders;
  - Bond calls;
  - Defeasances;

- Release, substitution, or sale of property security repayment of the securities;
- Rating changes; and
- Bankruptcy, insolvency, receivership or similar event of the obligated person;

VIII. Hiring of Underwriters

The City will, from time to time, issue requests for qualifications or requests for proposals for Underwriters. It is Dublin's position that it benefits from having a team of professionals pre-approved. Those Underwriters become familiar with the needs and programs of the City which enables them to provide a higher quality of service. Such firms are also motivated to present innovative ideas to the City, because they have a reasonable expectation of being rewarded for their efforts. It is important to have the members of the underwriting team that have access to the retail as well as the institutional market and that bring different but complementary banking skills to the table on behalf of the City. On a deal-by-deal basis, the City will select its underwriting team from the pool or pre-approved firms with the assistance of its financial advisor. The City intends to initiate the RFQ or RFP process every three to five years.

IX. Debt limitations

Ohio Revised Code provides two debt limitations on general obligation debt that are directly based on tax (assessed) valuation, applicable to all municipal corporations, including the City.

- Direct debt limitations:
  - The net principal amount of both voted and unvoted debt of the City, excluding "exempt debt", may not exceed 10½% of the total tax (assessed) valuation of all property in the City as listed and assessed for taxation.

  - The net principal amount of unvoted debt of the City, excluding exempt debt, may not exceed 5½% of that valuation.

Additionally, provisions of the Ohio Constitution and the Ohio Revised code impose an indirect debt limitation.

- Indirect debt limitation:
  - The City's ability to incur unvoted debt (whether or not exempt from the direct debt limitations) is limited in that all outstanding unvoted general obligation bonds of the combination of overlapping taxing subdivisions including the City resulting in the highest tax required for such debt charges in any year is 10 mills or less per $1.00 of assessed valuation.

The City will ensure that prior to any new debt issuance, the total existing general obligation debt as well as the projected new general obligation debt are within the direct and indirect debt limitations.

Given that certain debt that the City issues is considered exempt from the direct and/or indirect debt limitations, a more conservative debt limitation guideline will be followed. That guideline, applied to income tax supported debt, provides the following:

- Of the 25% of income tax revenue that is dedicated to the Capital Improvement Tax Fund, the City will allocate 60% of the revenue to pay the debt service on capital improvements.

- Each year, as part of the annual update of the five-year CIP, the Administration will account for existing debt service as well as anticipated debt service on proposed projects.
  - Anticipated debt service will be calculated using conservative interest rate assumptions.

- The maximum amount of debt (both existing and proposed new debt) shall not exceed 90% of the allocation of income tax revenue allocated to pay debt service.

X. Sources of revenue to retire debt

The City has several sources of revenue that are available or may become available for the repayment of debt, including but not limited to, income tax revenue, enterprise fund revenue, or tax increment revenue. The City will identify a specific stream of revenue intended to support each issuance of debt.

- Income Tax Revenue

  The primary source of revenue to repay debt is income tax revenue. Pursuant to Ordinance No. 17-87, approved by Dublin City Council on July 20, 1987, (and the subsequent approval by the voters of Dublin to increase the income tax from 1% to 2%), 25% of the income tax revenue collected will be allocated to the Capital Improvements Tax Fund. Of that amount, the City will allocate 40% to cash fund capital projects. The projects funded by cash will generally be recurring in nature or not have a useful life that meets the criteria of projects to be financed by debt. The remaining 60% will be allocated to retire debt issued for capital projects (See Debt Limitation Section). Any excess income tax revenues remaining after funding the annual debt service may be used to 'buy down' other capital project costs in order to issue less debt, cash fund capital projects, or accelerate the repayment of outstanding debt, when appropriate.

  Examples of projects that may be funded using income tax revenue: roadway improvements; park improvements; public facilities.

- Enterprise Fund Revenue

  Revenues generated from user fees and other charges within the City's water and sewer systems will be used to pay the debt service on improvements made to the respective systems.

  Examples of projects that may be funded using enterprise fund revenue: water and sewer projects; projects in which a dedicated enterprise fund has been established.

- Tax Increment Revenue

  The City utilizes tax increment financing (TIF) to fund improvements that benefit the property owners within the respective TIF districts. TIF revenues received within these TIF areas may be used to pay the debt service on the improvements. However, until a stable TIF revenue stream is available, the City will consider the debt service on these projects to be income tax funded, and will be included in the analysis of existing and proposed debt, in terms of determining additional debt capacity.

  Examples of projects that may be funded using tax increment revenue: roadway improvements; park improvements; improvements benefiting the TIF district.

- (Unlimited) Property Tax Revenue

  Certain capital projects may lend themselves to financing through voter supported bond issues. A key benefit to this financing method is the fact that such debt is not counted against the 10-mill bond limit for "unvoted debt". This financing approach may be used for specific voter approved purposes and may be a desirable option for certain projects if debt capacity limits are constraining or for projects that are outside the scope of general operations of the City.

  Revenue from a voter approved levy is segregated from all other revenue and available only for the voter approved project and related debt repayment.

  To the extent that money is available from the income tax allocation for debt service for payment of the debt charges on voted debt, the amount of the property tax levied to pay the debt service may be reduced or not collected at all. This does not diminish the pledge of the full faith and credit and property taxing powers of the City to the prompt payment of the debt charges on voter approved debt.

  Examples of projects that may be funded using (unlimited) property tax revenue: roadway improvements; park improvements; public facilities.

XI. Structural features of debt

- Use of General Obligation Debt:
  - The City intends to use general obligation debt for non-enterprise capital improvements which it considers to be part of its core mission. To the extent that the City has ample general obligation capacity under the ten mill limitation and direct and indirect statutory debt limits, it will consider issuing general obligation bonds for its various enterprises (water and sewer).

- Use of Revenue Bonds
  - The City may issue revenue bonds for projects that have a definable user or revenue base. Revenue bonds are secured only by a specific source of funds, either from the operations of the project being financed or from a dedicated revenue stream, rather than the general taxing power of the City.
  - If there is capacity, it may be in the best interest of the City to issue "double-barreled" bonds which are secured both by a dedicated revenue stream as well as by the City's general taxing powers (general obligation bonds)

- Duration:
  - Ohio Revised Code provides guidelines on the maximum period of time for which capital improvements may be financed. However, the duration permitted by law may often exceed the City's expectations of the practical economic life of an asset. The City intends to have debt fully retired during the expected useful life of the asset being financed. However, generally the City of Dublin does not expect to issue debt with a final maturity more than 20 years from the date of issuance.

- Bond Anticipation Notes:
  - Bond anticipation notes are an interim means of financing and, by their very nature, expose the City to interest rate and market risk upon renewal. Notes may be used to:
    - Finance small projects until such time as the project or projects can be rolled into a larger bond sale;
    - During times of high interest rates and when the expectation that interest rates are stable or trending downward; and
    - On an interim basis during the construction period for a revenue producing project until such time as the project is placed into service.

XII. Waiver of debt policy

The City may deviate from the requirements of this Debt Policy when the Administration recommends and City Council concurs that it is in the best interest of the City to do so. Whenever the Administration presents a financing proposal to City Council, it will identify any areas that are not compliant with the Debt Policy and the reasons for recommending a waiver of any provisions of the Policy.

XIII. Conclusion

Adherence to a debt management policy signals to rating agencies and the capital markets that the City is well managed and should meet its obligations in a timely manner. Debt levels and their related annual costs are important long-term obligations that must be managed within available resources. This policy provides guidelines for the City to manage its debt program within those available resources and provides a foundation for prudent long-term financial management.